Understanding Cooperative Finance as a New Common?

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Abstract

The world currently face three major crises: a financial crisis, which has dramatic consequences for the real economy, an environmental crisis resulting from global warming and a social crisis with a general increase in social and economic inequalities. These crises urge for a shift toward more sustainable ways of producing and consuming. The emerging economics of common good is promising in order to preserve common natural goods that are vital for humanity, such as air, water or food, but also goods created by humans from collective action. A new generation of commons has to be defined and recognized.

The Great Financial Crisis of 2007-2009 has stressed the urgency of strengthening the financial sector (Hellwig, 2009). Although some suffer from strong isomorphism, financial cooperatives tend to play a positive role in the banking sector, focusing more on retail banking, taking lower risks and increasing systemic stability (Hesse and Cihák, 2007; Ayadi *et al.*, 2010). They are one of the earliest and most widespread forms of alternative financial institutions across the world (Hollis and Sweetman, 1998; Fonteyne, 2007). In December 2013, financial cooperatives served around 208 million members in 103 countries (WOCCU, 2014).[1]

This paper focuses on cooperative finance and argues that financial cooperatives can be considered as human-made common goods. Recognizing them as such helps to design innovative mechanisms, rules or legislation to protect them against destruction or isomorphism. This paper's outcomes are twofold: first, based on the case of financial cooperatives, it shows that the *common* nature of human-made goods can be rooted in their common-property regime. It actually argues that common-property regime can create common goods. Second, this paper highlights that considering financial cooperatives as common goods enables development and justifies adequate mechanisms in order to preserve their nature. In particular, it presents two major mechanisms that draw upon this concept: the *common bond* and the *asset lock* principle.

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[1] World Council of Credit Unions (WOCCU) assembles statistical information of cooperative institutions all over the world on an annual basis. They often partner with a number of national representative institutions in order to obtain a full overview of the state of the financial cooperative sector in one country.

Methodology

To show that cooperative finance can be seen as common goods, we mobilize Ostrom's theoretical framework on common goods' nature and property regime (Ostrom, 1990).

We first refer to the economists' definition of the nature of goods and to Ostrom's characterization of common pool resources. We argue that common goods' definition should be interpreted in a broad way in order to define a new generation of commons that are not only natural, but also human-made goods. In particular, we apply Ostrom's framework to financial cooperatives and analyze the common resource system behind these institutions as well as the rivalrous resource units generated by this system (Ostrom et al., 1993; Ostrom, 1999; Hess and Ostrom, 2006).

We then demonstrate that financial cooperatives are common-property regimes characterized by the absence of alienation rights (Schlager & Ostrom, 1992). In particular, there is an intergenerational endowment: the resources system is inherited from past generations to be transferred to future ones (Davis, 2001; Birchall, 2013). The general reserve is built through retained earning accumulated over previous years. Individual members do not own the total value of their financial cooperative. Contrary to stock value, which should *theoretically* correspond to all actualized future benefits generated by an organization, cooperatives' shares only have a nominal value. We then proceed to a systematic comparison between cooperatives' principles and the set of design principles Ostrom has identified as required to ensure a sustainable governance of common-pool resources. We show that early financial cooperatives used to satisfy Ostrom's design principles, but no longer did when they became larger structures (Guinnane, 2001; Guinnane, 2003).

This demonstration first highlights that the nature and the property regime tend to overlap when we refer to human-made common goods. Second, it enables us to identify and justify mechanisms that tend to preserve the common nature of financial cooperatives. In particular, we identify two major mechanisms: the *common bond* and *asset lock* principle.

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